

Message Text

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ACTION XMB-04

INFO OCT-01 ARA-10 ISO-00 EB-07 COME-00 TRSE-00 CIAE-00
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FM AMEMBASSY MONTEVIDEO
TO SECSTATE WASHDC 2987

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ALSO FOR COMMERCE/MEPD, EXIM

E.O. 11652: N/A
TAGS: EGEN, BEXP, UY
SUBJECT: REQUEST FOR EXIMBANK FINANCING OF PALMAR PROJECT

REF: STATE 001292

1. SINCE SUBMISSION 76 MONTEVIDEO 2080, THE BRAZILIAN COMPANY WHICH PLANS TO USE SOME US SUPPLIED EQUIPMENT HAS BEEN AWARDED TURNKEY CONTRACT FOR CONSTRUCTION OF PALMAR DAM. DETAILS OF CONTRACT ARE NOW BEING NEGOTIATED WITH GOU AND WORK IS EXPECTED TO BEGIN BY MID-1977. EMBASSY WILL FORWARD COPIES OF PREVIOUS REPORTS, AS WELL AS LATEST UTE ANNUAL REPORT, COMIPAL FINANCIAL REPORT AND COMIPAL STAFFING DIAGRAM, DIRECTLY TO EXIMBANK. PLEASE ADVISE OFFICE ADDRESS TO WHICH THEY SHOULD BE SENT.

2. PALMAR HAS HAD AN OFF AND ON EXISTENCE FOR NEARLY 15 YEARS. ORIGINALLY THE PROJECT WAS CONFIDED TO UTE, AN AUTONOMOUS STATE-OWNED ENTITY WHICH PROVIDES ELECTRICAL SERVICES THROUGHOUT URUGUAY. IN 1972 UTE CALLED FOR BIDS, BUT ONLY ONE WAS RECEIVED. IT WAS REJECTED BY THE UTE BOARD OF DIRECTORS BASED ON (A) LACK OF LONG TERM FINANCING AND (B) INABILITY TO OBTAIN SUCH FINANCING FROM THE IBRD OR IDB UNTIL COMPLETION OF THE THEN PROPOSED

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AND HIGHER PRIORITY SALTO GRANDE PROJECT.

3. COMIPAL WAS CREATED BY LAW IN 1973 (COPY WILL BE SENT) TO REPLACE UTE AS THE PROJECT'S EXECUTING AGENCY. A PRECEDENT IS FOUND IN THE CREATION OF A SIMILAR AGENCY FOR CONSTRUCTION OF THE RINCON DEL BONETE DAM DURING THE EARLY FORTIES, WHICH LATER WAS TURNED OVER TO UTE. ARTICLE THREE OF MAY 15, 1973, LAW AUTHO-

IZES COMIPAL TO PLAN AND EXECUTE PALMAR PROJECT. FURTHER STUDIES OF GOU AND SOFRELEC (FRENCH FIRM WHICH DID ORIGINAL FEASIBILITY STUDY) AND THE PETROLEUM CRISIS CONVINCED THE GOU THAT PALMAR WAS FEASIBLE EVEN THOUGH SALTO GRANDE IS NOT YET COMPLETED; EMBASSY INFORMATION AT THAT TIME WAS THE GOU AND INTERNATIONAL LENDING AGENCIES WERE DEBATING RELATIVE MERITS OF HYDROELECTRIC VERSUS THERMAL GENERATION AND BELIEVED THAT SIMULTANEOUS CONSTRUCTION OF PALMAR WAS NOT ADVISABLE, BUT WOULD BE IF PRICE OF PETROLEUM ROSE ABOVE \$5 PER BARREL. APPARENTLY FAVORABLE DISCUSSIONS WITH IBRD FOR FINANCING WERE SUSPENDED WHEN BRAZIL WHICH HAS BEEN INTERESTED IN PROJECT SINCE AT LEAST 1972 OFFERED TO FINANCE A MAJOR PORTION OF THE PROJECT WITH A \$131 LOAN FOR EQUIPMENT AND SERVICES AND A FURTHER \$11 MILLION FOR IRON, WOOD AND OTHER RAW MATERIALS. HOWEVER, IBRD IS ACTIVELY CONSIDERING FINANCING JOINTLY WITH IDB A POWER DISTRIBUTION NETWORK PROGRAM OF ABOUT \$150 MILLION WITH INITIAL LENDING TO BEGIN IN LATE 1977 OR EARLY 1978.

4. COMIPAL IS RESPONSIBLE EXECUTORY AGENCY AND IS FUNDED BY GOU FOR OPERATING EXPENSES AND LOCAL COSTS SUCH AS LAND EXPROPRIATION. FINANCING IS PROVIDED BY THE "POWER DEVELOPMENT FUND" CREATED BY LAW NO. 13958, WHICH ALSO PAYS FOR SALTO GRANDE. THE FUND IS SUPPLIED TAX MONEY PAID BY FUEL AND POWER CONSUMERS. FINANCING FOR THE EQUIPMENT AND SERVICES IS BRAZILIAN AND SUPPLIER CREDITS SUCH AS GE IS REQUESTING. SECURITY IS PROVIDED BY MINISTRY OF ECONOMY AND FINANCE GUARANTEES. EMBASSY UNDERSTANDS THAT BANK OF AMERICA, BARING BROTHERS, BANQUE DE UNCLASSIFIED

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L'UNION EUROPEENE AND BANCO EXTERIOR DE ESPANA HAVE EXPRESSED INTEREST IN PROVIDING CREDITS FOR NON-BRAZILIAN PURCHASES.

5. PALMAR'S THREE TURBINES WILL GENERATE 300 MVA AND CONNECT TO MONTEVIDEO DIRECTLY AND THROUGH THE SALTO GRANDE CIRCUIT, WHICH ALSO PERMITS EXCHANGE WITH ARGENTINA. WITH COMPLETION OF SALTO GRANDE AND PALMAR, URUGUAY'S INSTALLED GENERATING CAPACITY OF AROUND 600 MVA WILL NEARLY TRIPLE (300 FROM PALMAR AND HALF OF SALTO GRANDE'S 1600 MVA), TO PROVIDE FOR GROWING DEMAND AND REDUCE DEPENDENCE ON THERMAL GENERATION. IT IS EXPECTED THAT THE SALE OF SURPLUS ELECTRICITY TO ARGENTINA TO MEET THAT COUNTRY'S RAPIDLY GROWING NEEDS WILL PROVIDE INCOME TO REPAY LOANS FOR THESE TWO PROJECTS. WORK TO DATE INCLUDES LAND EXPROPRIATION, FEEDER ROADS, AND HOUSING AND RELATED SERVICES FOR AN ADVANCE PARTY OF 600 WORKERS.

6. UK CONSULTING FIRM OF SIR ALEXANDER GIBSON HAS BEEN AWARDED CONTRACT FOR SUPERVISORY ENGINEERING SERVICES. COMIPAL STAFF IS COMPOSED OF A SIX MAN BOARD HEADED BY RETIRED ARMY GENERAL MARIO

O. AGUERRONDO, A CHIEF ENGINEER, THREE SECTION CHIEFS, TEN ENGINEERS, AND 30 OFFICE CLERKS.

7. COMMENT: EXIMBANK EXPOSURE IN URUGUAY HAS BEEN MINIMAL. NEVERTHELESS, ECONOMIC REFORM MEASURES, REPORTED ELSEWHERE, AND 1976 GOU ECONOMIC PERFORMANCE FULFILLING IMF STAND-BY REQUIREMENTS, ARGUE FOR SYMPATHETIC CONSIDERATION THIS REQUEST. INTEREST EXPRESSED BY PRIVATE BANKS IN THIS AND OTHER PROJECTS, AND MOST NOTABLY BY CITIBANK'S RECENT UNSECURED LOAN (76 MONTEVIDEO 492) TO ANCAP FOR PETROLEUM BUOY PROJECT, DEMONSTRATE RENEWED CONFIDENCE IN THE COUNTRY'S FINANCIAL RESPONSIBILITY. EMBASSY KNOWN OF NO REASON WHY EXIMBANK SHOULD NOT CONSIDER PRELIMINARY COMMITMENT REQUEST FAVORABLY, AND NOTES IT WOULD SUPPORT POSSIBLE US EXPORT PARTICIPATION (FOR THE FIRST TIME) IN A MAJOR HYDROELECTRIC PROJECT HERE.
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Disposition Event:
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